

V I R G I N I A:

BEFORE THE VIRGINIA GAS AND OIL BOARD

APPLICANT:	COLUMBIA NATURAL RESOURCES, INC.)	VIRGINIA GAS
)	AND OIL BOARD
RELIEF SOUGHT:	(1) ESTABLISHMENT OF THE DRILLING)	
	UNIT DEPICTED IN EXHIBIT "A" HERETO)	DOCKET NO.
	AND SERVED BY WELL NO. CNR 21671)	00-0516-0802
	(herein "Subject Drilling Unit"))	
	PURSUANT TO VA. CODE § 45.1-361.20;)	
	(2) POOLING OF INTERESTS IN)	
	SUBJECT DRILLING UNIT PURSUANT TO)	
	VA. CODE § 45.1-361.21, FOR THE)	
	PRODUCTION OF GAS OTHER THAN)	
	COALBED METHANE GAS FROM SUBJECT)	
	FORMATIONS (herein referred)	
	to as "Conventional Gas" or "Gas");)	
	and (3) DESIGNATE THE APPLICANT)	
	AS THE UNIT OPERATOR FOR THE)	
	SUBJECT DRILLING UNIT)	

LEGAL DESCRIPTION:

DRILLING UNIT SERVED BY WELL NUMBERED
 CNR 21671 TO BE DRILLED IN THE LOCATION
 DEPICTED ON EXHIBIT A HERETO,
 BIG SANDY FUEL CORPORATION 4114.05 ACRE TRACT
 PRATER QUADRANGLE,
 PRATER MAGISTERIAL DISTRICT,
 BUCHANAN COUNTY, VIRGINIA
 (the "Subject Lands" are more particularly
 described on Exhibit "A" attached hereto
 and made a part hereof)

REPORT OF THE BOARD

FINDINGS AND ORDER

1. Hearing Date and Place: This matter came on for hearing before the Virginia Gas and Oil Board (hereafter "Board") at 9:00 a.m. on May 16, 2000, Southwest Virginia Higher Education Center on the campus of Virginia Highlands Community College, Room 240, Abingdon, Virginia.

2. Appearances: James E. Kaiser, Esquire of the firm Wilhoit & Kaiser appeared for the Applicant. Katie D. Blankenship and Alvin Blankenship filed a response but were not present at the hearing. Sandra B. Riggs, Assistant Attorney General was present to advise the Board.

3. Jurisdiction and Notice: Pursuant to Va. Code § 45.1-361.1 et seq., the Board finds that it has jurisdiction over the subject matter. Based upon the evidence presented by Applicant, the Board also finds that the Applicant has (1) exercised due diligence in conducting a meaningful search of reasonably available sources to determine the identity and whereabouts of each gas and oil owner, coal owner, or mineral owner having an interest in Subject Drilling Unit

underlying and comprised of Subject Lands; (2) has represented to the Board that it has given notice to those parties (hereafter sometimes "person(s)" whether referring to individuals, corporations, partnerships, associations, companies, businesses, trusts, joint ventures or other legal entities) entitled by Va. Code § 45.1-361.19 to notice of this application; and (3) that the persons set forth in Exhibit B hereto have been identified by Applicant as owners of Conventional Gas interests underlying Subject Drilling Unit, including those who have not heretofore leased, sold or voluntarily agreed with the Applicant to pool their Gas interests in Subject Drilling Unit. Further, the Board has caused notice of this hearing to be published as required by Va. Code § 45.1-361.19.B. Whereupon, the Board hereby finds that the notices given herein satisfy all statutory requirements, Board rule requirements and the minimum standards of state due process.

4. Amendments: None.

5. Dismissals: None.

6. Relief Requested: Applicant requests (1) that pursuant to Va. Code § 45.1-361.20, the Board establish Subject Drilling Unit to be served by Well No. CNR 21671; and (2) that pursuant to Va. Code § 45.1-361.21, the Board pool the rights, interests and estates in and to the Conventional Gas of the known and unknown persons listed in Exhibit B hereof, and their known and unknown heirs, executors, administrators, devisees, trustees, assigns and successors, both immediate and remote, for the drilling and operation, including production, of Conventional Gas from the Subject Drilling Unit established for Subject Formations underlying and comprised of the Subject Lands, (hereafter sometimes collectively identified and referred to as "Well Development and/or Operation in the Subject Drilling Unit"); and, (3) that the Board designate Columbia Natural Resources, Inc. as Unit Operator.

7. Relief Granted: The requested relief in this cause be and hereby is granted.

7.1 The Board hereby: (1) establishes Subject Drilling Unit pursuant to Va. Code § 45.1-361.20; (2) pursuant to Va. Code § 45.1-361.21.C.3, Columbia Natural Resources, Inc. (hereafter "Unit Operator") is designated as the Operator authorized to drill and operate Well No. CNR 21671 in the Subject Drilling Unit to produce Conventional Gas from Subject Formations, subject to the permit provisions contained in § 45.1-361.27 et seq., Code of Virginia, 1950 as amended, to § 4 VAC 25-150 et seq., Gas and Oil Regulations and to § 4 VAC 25-160 et seq., Virginia Gas and Oil Board Regulations, all as amended from time to time; and (3) the rights, interests and estates in and to the Conventional Gas in Subject Drilling Unit including those of the known and unknown persons listed on Exhibit B, attached hereto and made a part hereof, and their known and unknown heirs, executors, administrators, devisees, trustees, assigns and successors, both immediate and remote, leased or unleased, be and hereby are pooled in the Subject Formations in the Subject Drilling Unit underlying and comprised of the Subject Lands.

<u>Subject Formations</u>	<u>Unit Size</u>	<u>Permitted Well Location</u>	<u>Field and Well Classification</u>
Surface to total depth drilled of 5,655 feet for the Devonian Shales, including, but not limited to the Salt Sands 1 & 2, Lee, Maxon, Little Lime, Big Lime, Weir, Berea, Cleveland, Lower Huron, and Java, formations	An approximately 112.69 acre circular drilling unit	CNR 21671 (See Exhibit A)	No applicable field rules; subject to the statewide spacing requirements of Va. Code § 45.1-361.17

For the Subject Drilling Unit
underlying and comprised of the Subject
Land Served by Well No. CNR 21671

Buchanan County, Virginia

8. Election and Election Period: In the event any Gas owner named in Exhibit B has not heretofore reached a voluntary agreement to share in the operation of the well to be located in Subject Drilling Unit at a rate of payment mutually agreed to by said Gas owner and the Operator, then, such person may elect one of the options set forth in Paragraph 9 below and must give written notice of his election of the option selected under Paragraph 9 herein to the designated Unit Operator at the address shown below within thirty (30) days from the date this Order is recorded in the county above named. A timely election shall be deemed to have been made if, on or before the last day of said 30-day period, such electing person has delivered his written election to the designated Unit Operator at the address shown below or has duly postmarked and placed his written election in first class United States mail, postage prepaid, addressed to the Unit Operator at the address shown below.

9. Election Options:

- 9.1 Option 1 - To Participate In The Development and Operation of the Drilling Unit: Any Gas owner named in Exhibit B who has not reached a voluntary agreement with the Operator may elect to participate in the Well Development and Operation on the Subject Drilling Unit (hereafter "Participating Operator") by agreeing to pay the estimate of such Participating Operator's proportionate part of the actual and reasonable costs, including a reasonable supervision fee, of the Well Development and Operation, as more particularly set forth in Virginia Gas and Oil Board Regulation 4 VAC 25-160-100 (herein "Completed for Production Costs"). Further, a Participating Operator agrees to pay the estimate of such Participating Operator's proportionate part of the Estimated, Completed-for-

Production Costs as set forth below to the Unit Operator within forty-five (45) days from the later of the date of mailing or the date of recording of this Order. The estimated Completion-for-Production Costs for the Subject Drilling Unit are as follows:

Estimated, Completed-for-Production Costs:
(Multiple Completion)

\$276,621.00

- 9.2 Option 2 - To Receive A Cash Bonus Consideration: In lieu of participating in the Well Development and Operation of Subject Drilling Unit under Paragraph 9.1 above, any Gas owner named in Exhibit B who has not reached a voluntary agreement with the Operator may elect to accept a cash bonus consideration of \$5.00 per net mineral acre owned by such person, commencing upon entry of this Order and continuing annually until commencement of production from Subject Drilling Unit, and thereafter a royalty of 1/8th of 8/8ths [twelve and one-half percent (12.5%)] of the net proceeds received by the Unit Operator for the sale of the Gas produced from any Well Development and Operation covered by this Order multiplied by the Gas owner's percentage Interest Within Unit as set forth in Exhibit B (for purposes of this Order, net proceeds shall be actual proceeds received less post-production costs incurred downstream of the wellhead, including, but not limited to, gathering, compression, treating, transportation and marketing costs, whether performed by Unit Operator or a third person) as fair, reasonable and equitable compensation to be paid to said Gas owner. The initial cash bonus shall become due and owing when so elected and shall be tendered, paid or escrowed within one hundred twenty (120) days of recording of this Order. Thereafter, annual cash bonuses, if any, shall become due and owing on each anniversary of the date of recording of this order in the event production from Subject Drilling Unit has not theretofore commenced, and once due, shall be tendered, paid or escrowed within sixty (60) days of said anniversary date. Once the initial cash bonus and the annual cash bonuses, if any, are so paid or escrowed, said payment(s) shall be satisfaction in full for the right, interests, and claims of such electing Gas owner in and to the Gas produced from Subject Formation in the Subject Lands, except, however, for the 1/8th royalties due hereunder.

The election made under this Paragraph 9.2, when so made, shall be satisfaction in full for the right, interests, and claims of such electing person in any Well Development and Operation covered hereby and such electing person shall be deemed to and hereby does lease and assign its right, interests, and claims in and to the Gas produced from Subject Formation in the Subject Drilling Unit to the Unit Operator.

- 9.3. Option 3 - To Share In The Development And Operation As A Non-Participating Person On A Carried Basis And To Receive Consideration In Lieu Of Cash: In lieu of participating in the Well Development and Operation of Subject Drilling Unit

under Paragraph 9.1 above and in lieu of receiving a cash bonus consideration under Paragraph 9.2 above, any gas owner named in Exhibit B, who has not reached a voluntary agreement with the Operator may elect to share in the Well Development and Operation of Subject Drilling Unit on a carried basis (as a "Carried Well Operator"] so that the proportionate part of the Completed-for-Production Costs hereby allocable to such Carried Well Operator's interest is charged against such Carried Well Operator's share of production from Subject Drilling Unit. Such Carried Well Operator's rights, interests, and claims in and to the Gas in Subject Drilling Unit shall be deemed and hereby are assigned to the Unit Operator until the proceeds from the sale of such Carried Well Operator's share of production from Subject Drilling Unit (exclusive of any royalty, excess or overriding royalty, or other non-operating or non cost-bearing burden reserved in any lease, assignment thereof or agreement relating thereto covering such interest) equals three hundred percent (300%) for a leased interest or two hundred percent (200%) for an unleased interest (whichever is applicable) of such Carried Well Operator's share of the Completed-for-Production Costs allocable to the interest of such Carried Well Operator. When the Unit Operator recoups and recovers from such Carried Well Operator's assigned interest the amounts provided for above, then, the assigned interest of such Carried Well Operator shall automatically revert back to such Carried Well Operator, and from and after such reversion, such Carried Well Operator shall be treated as if it had participated initially under Paragraph 9.1 above; and thereafter, such participating person shall be charged with and shall pay his proportionate part of all further costs of such well development.

The election made under this Paragraph 9.3, when so made, shall be satisfaction in full for the right, interests, and claims of such electing person in any well development and operation covered hereby and such electing person shall be deemed to have and hereby does assign his right, interests, and claims in and to the Gas produced from Subject Formation in the Subject Drilling Unit to the Unit Operator for the period of time during which his interest is carried as above provided prior to its reversion back to such electing person.

10. Failure to Properly Elect: In the event a person entitled to elect fails to do so within the time, in the manner, and in accordance with the terms of this Order one of the alternatives set forth in Paragraph 9 above for which his interest qualifies, then such person shall be deemed to have elected not to participate in the proposed Well Development and Operation in Subject Drilling Unit and shall be deemed, subject to any final legal determination of ownership, to have elected to accept as satisfaction in full for such person's right, interests, and claims in and to the Gas the consideration provided in Paragraph 9.2 above for which its interest qualifies and shall be deemed to have leased and/or assigned his right, interests, and claims in and to Gas in the Subject Drilling Unit to the Unit Operator. Persons who fail to properly elect shall be deemed to have accepted the compensation and terms set forth herein at Paragraph 9.2 in satisfaction in full for the right, interests, and claims of such person in and to the Gas produced from Subject Formation underlying Subject Lands.

11. Default By Participating Person: In the event a person so entitled elects to participate under Paragraph 9.1, but fails or refuses to pay, to secure the payment or to make an arrangement with the Unit Operator for the payment of such person's proportionate part of the Estimated Completed-for-Production costs as set forth herein, all within the time and in the manner as prescribed in this Order, then such person shall be deemed to have withdrawn his election to participate and shall be deemed to have elected to accept as satisfaction in full for such person's right, interests, and claims in and to the Gas the consideration provided in Paragraph 9.2 above for which his interest qualifies depending on the excess burdens attached to such interest. Whereupon, any cash bonus consideration due as a result of such deemed election shall be tendered, paid or escrowed by Unit Operator within one hundred twenty (120) days after the last day on which such defaulting person under this Order should have paid his proportionate part of such cost or should have made satisfactory arrangements for the payment thereof. When such cash bonus consideration is paid or escrowed, it shall be satisfaction in full for the right, interests, and claims of such person in and to the Gas underlying Subject Drilling Unit in the Subject Lands covered hereby, except, however, for any 1/8th royalties which would become due pursuant to Paragraph 9.2 hereof.

12. Assignment of Interest: In the event a person pooled hereby is unable to reach a voluntary agreement to share in the operation of the well contemplated by this Order at a rate of payment agreed to mutually by said Gas owner and the Unit Operator, and said person elects or fails to elect to do other than participate under Paragraph 9.1 above in the Well Development and Operation in Subject Drilling Unit, then such person shall be deemed to have and shall have assigned unto Unit Operator such person's right, interests, and claims in and to said well, in Subject Formations in Subject Drilling Unit, and other share in and to Gas production to which such person may be entitled by reason of any election or deemed election hereunder in accordance with the provisions of this Order governing said elections.

13. Unit Operator (or Operator): Columbia Natural Resources, Inc. be and hereby is designated as Unit Operator authorized to drill and operate Well No. CNR 21671 in Subject Formations in Subject Drilling Unit, all subject to the permit provisions contained in Va. Code § 45.1-361.27 et seq., §§ 4 VAC 25-150 et seq., Gas and Oil Regulations and §§ 4 VAC 25-160 et seq., Virginia Gas and Oil Board Regulations, all as amended from time to time, and all elections required by this Order shall be communicated to Unit Operator in writing at the address shown below:

Columbia Natural Resources, Inc.
900 Pennsylvania Avenue
Charleston, WV 25302
Phone: (304) 353-5000
Attention: Mary Ann Fox

14. Commencement of Operations: Unit Operator shall commence or cause to commence operations for the drilling of the well covered hereby within seven hundred and thirty (730) days from the date of this Order and shall prosecute the same with due diligence. If Unit Operator shall not have so commenced and/or prosecuted, then this Order shall terminate, except for any cash sums becoming payable hereunder; otherwise, unless sooner terminated by Order of the Board, this Order shall expire at 12:00 P.M. on the date on which the well covered by this Order is permanently abandoned and plugged. However, in the event an appeal is taken from this Order, then the time between the filing of

the Petition for Appeal and the final Order of the Circuit Court shall be excluded in calculating the two year period referenced herein.

15. Operator's Lien: Unit Operator, in addition to the other rights afforded hereunder, shall have a lien and a right of set off on the Gas estates, rights, and interests owned by any person subject hereto who elects to participate under Paragraph 9.1 in the Subject Drilling Unit to the extent that costs incurred in the drilling or operation on the Subject Drilling Unit are a charge against such person's interest. Such liens and right of set off shall be separable as to each separate person and shall remain liens until the Unit Operator drilling or operating the well covered hereby has been paid the full amounts due under the terms of this Order.

16. Escrow Provisions:

16.1 Escrow Account: Applicant has represented to the Board that there are no unknown and/or unlocatable Gas owners within Subject Drilling Unit whose interests are subject to the escrow requirements of Paragraph 16.2 below. Therefore, unless and until otherwise ordered by the Board, the Escrow Agent is not required to establish an escrow account (herein "Escrow Account") pursuant to Paragraphs 16.2 below.

First Union National Bank
Corporate Trust PA1328
123 South Broad Street
Philadelphia, PA 19109-1199
Telephone: (215) 985-3485 or (888) 396-0853
Attention: Don Ballinghoff

16.2 Escrow Provisions for Unknown or Unlocatable Persons: If any payment of bonus, royalty payment or other payment due and owing cannot be made because the person entitled thereto cannot be located or is unknown, then such cash bonus, royalty payment or other payment shall not be commingled with any funds of the Unit Operator and shall, pursuant to Va. Code § 45.1-361.21.D, be deposited by the Operator into the Escrow Account, commencing within one hundred twenty (120) days of recording of this Order, and continuing thereafter on a monthly basis with each deposit to be made, by use of a report format approved by the Inspector, by a date which is no later than sixty (60) days after the last day of the month being reported and/or for which funds are subject to deposit. Such funds shall be held for the exclusive use of, and sole benefit of the person entitled thereto until such funds can be paid to such person(s) or until the Escrow Agent relinquishes such funds as required by law or pursuant to order of the Board in accordance with Va. Code § 45.1-361.21.D.

17. Special Findings: The Board specifically and specially finds:

17.1 Applicant claims ownership of Gas leases on 99.22 percent of Subject Drilling Unit and the right to explore for, develop and produce Gas from same.

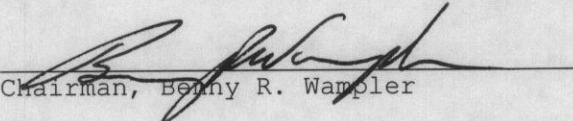
17.2 Applicant is an operator in the Commonwealth of Virginia and has satisfied the Board's requirements for operations in Virginia;

- 17.3 Applicant has proposed the drilling of Well No. CNR 21671 to a depth of 5,655 feet on the Subject Drilling Unit at the location depicted in Exhibit A to develop the pool of Gas in Subject Formations.
- 17.4 Applicant proposes to complete and operate Well CNR 21671 for the purpose of producing Conventional Gas and has filed an application with the Department of Mines, Minerals and Energy's Division of Gas and Oil seeking a permit for said well.
- 17.5 Set forth in Exhibit B is the name and last known address of each person of record identified by the Applicant as Gas owners within Subject Drilling Unit, including those persons who have not reached a voluntary agreement to share in the operation of Well CNR 21671 at a rate of payment agreed to mutually by said gas and oil owners and the Unit Operator. Gas interests unleased to the Unit Operator represent .78 percent of Subject Drilling Unit.
- 17.6 The estimated production over the life of the proposed well is 360 million cubic feet.
- 17.7 Applicant's evidence established that the fair, reasonable and equitable compensation to be paid to any person in lieu of the right to participate in the well covered hereby are those options provided in Paragraph 9 above.
- 17.8 The Subject Drilling Unit does not constitute an unreasonable or arbitrary exercise of Applicant's right to explore for or produce Gas.
- 17.9 The relief requested and granted is just and reasonable, is supported by substantial evidence and will afford each person in the Subject Drilling Unit the opportunity to recover or receive, without unnecessary expense, each person's just and fair share of the production of the gas and/or oil from Subject Drilling Unit. The granting of the Applications and relief requested therein will ensure to the extent possible the greatest ultimate recovery of gas and oil, prevent or assist in preventing the various types of waste prohibited by statute and protect or assist in protecting the correlative rights of all persons in the subject common sources of supply in the Subject Lands. Therefore, the Board is entering an Order granting the relief herein set forth.
18. Mailing Of Order And Filing Of Affidavit: Applicant or its Attorney shall file an affidavit with the Secretary of the Board within sixty (60) days after the date of receipt of this Order stating that a true and correct copy of said Order was mailed within seven (7) days from the date of receipt of this Order to each person pooled by this Order whose address is known.
19. Availability of Unit Records: The Director shall provide all persons not subject to a lease with reasonable access to all records for Subject Drilling Unit which are submitted by the Unit Operator to said Director and/or his Inspector(s).
20. Conclusion: Therefore, the requested relief and all terms and provisions set forth above be and hereby are granted and IT IS SO ORDERED.

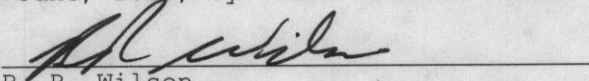
21. Appeals: Appeals of this Order are governed by the provisions of Va. Code Ann. § 45.1-361.9 which provides that any order or decision of the Board may be appealed to the appropriate circuit court. Such appeals must be taken in the manner prescribed in the Administrative Process Act, Va. Code Ann. § 9-6.14:1 et seq. and Rule 2A of the Rules of the Virginia Supreme Court.

22. Effective Date: This Order shall be effective on the date of its execution.

DONE AND EXECUTED this 26th day of June, 2000, by a majority of the Virginia Gas and Oil Board.

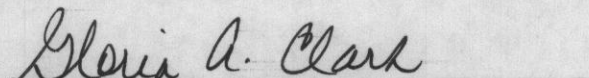

Chairman, Benny R. Wampler

DONE AND PERFORMED this 5th day of July, 2000, by Order of this Board.


B. R. Wilson
Principal Executive to the Staff
Virginia Gas and Oil Board

STATE OF VIRGINIA)
COUNTY OF WISE)

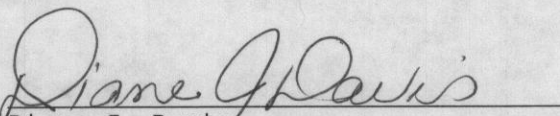
Acknowledged on this 26th day of June, 2000, personally before me a notary public in and for the Commonwealth of Virginia, appeared Benny Wampler, being duly sworn did depose and say that he is Chairman of the Virginia Gas and Oil Board, that he executed the same and was authorized to do so.


Gloria A. Clark
Notary Public

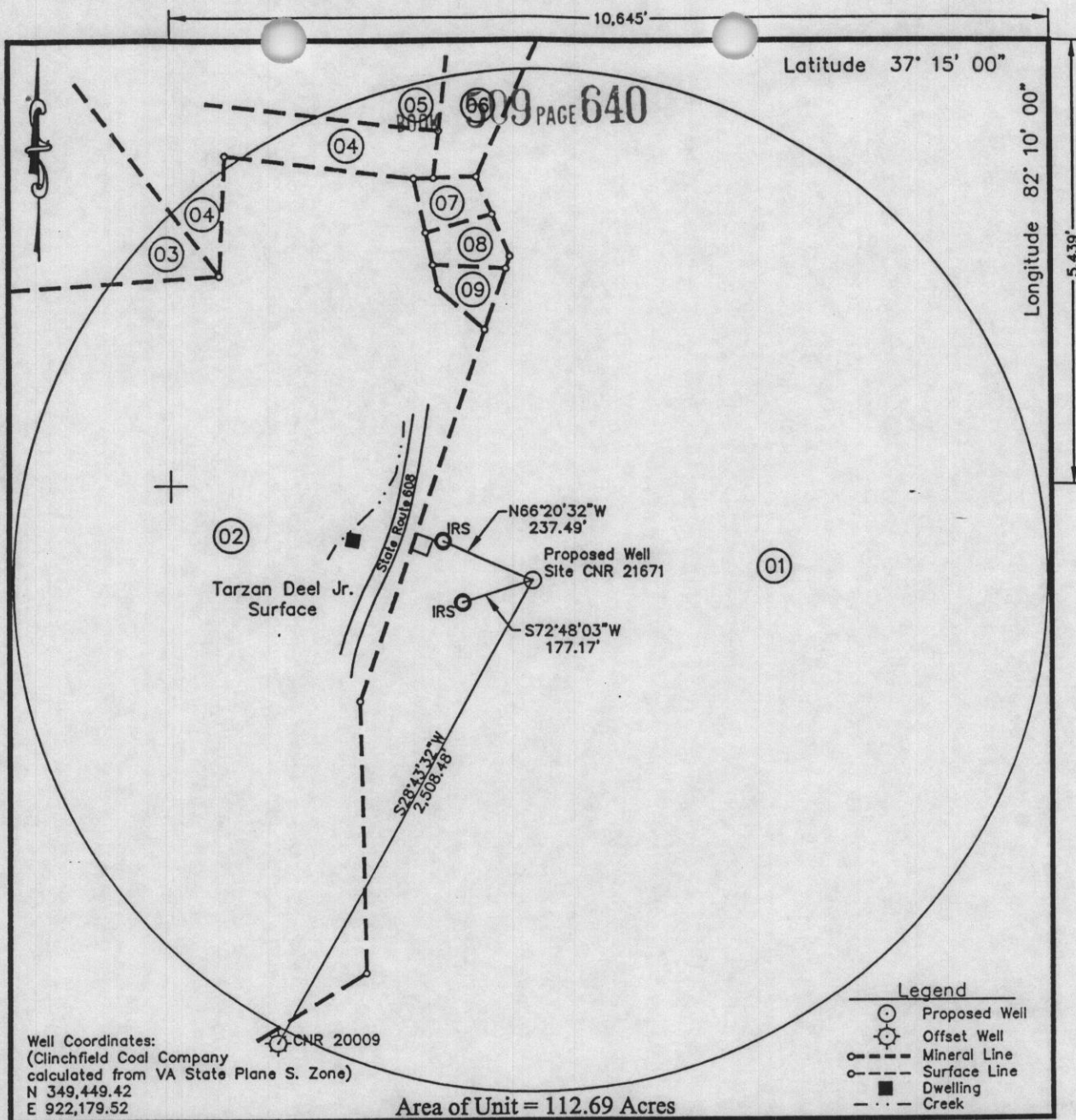
My commission expires December 31, 2003

STATE OF VIRGINIA)
COUNTY OF WASHINGTON)

Acknowledged on this 5th day of July, 2000, personally before me a notary public in and for the Commonwealth of Virginia, appeared B. R. Wilson, being duly sworn did depose and say that he is Principal that he executed the same and was authorized to do so.


Diane J. Davis
Notary Public

My commission expires September 30, 2001



WELL LOCATION PLAT

COMPANY: Columbia Natural Resources, Inc. WELL NAME OR NUMBER: 21671
TRACT NUMBER: Big Sandy Fuel Corp. Tr. QUADRANGLE: Prater
DISTRICT: Prater
WELL COORDINATES (VIRGINIA STATE PLANE): N - 349,449.42 E - 922,179.52
ELEVATION: 1,605.86 METHOD USED TO DETERMINE ELEVATION:
G.P.S. Observation from Cindy Monument

COUNTY: Buchanan SCALE: 1" = 400' DATE: 03-09-00
THIS PLAT IS A NEW PLAT X ; AN UPDATED PLAT ; OR A FINAL LOCATION PLAT

+

Denotes the location of a well on United States Topographic Maps, scale 1 to 24,000, latitude and longitude lines being represented by border lines as shown (optional).

EXHIBIT B
well 21671

<u>Tract</u>	<u>Lessor</u>	<u>Lease Status</u>	<u>Interest Within Unit</u>	<u>Gross Acres In Unit</u>
1	Pine Mountain Oil & Gas P. O. Box 4000 Lebanon, VA 24266	Leased 1064340-000	64.33%	72.49
2	Pine Mountain Oil & Gas P. O. Box 4000 Lebanon, VA 24266	Leased 1064340-000	31.61%	35.62
3	Tarzan Deel and Bessie Jerrine Deel, H/W Route 2, Box 362 Haysi, VA 24256	Leased 1216220-000	00.45%	00.51
4	James H. Deel and Shirley Deel, H/W 19233 Sandy Lane Stewartstown, PA 17363	Leased 1216224-000	1.28%	01.44
5	Connie Deel P. O. Box 368 Vansant, VA 24656	Leased 1215846-000	00.44%	00.50
6	Connie Deel P. O. Box 368 Vansant, VA 24656	Leased 1215846-000	00.77%	00.87
7	Katie Blankenship and Alvin Blankenship, H/W Rt. 2, Box 275 Haysi, VA 24256	Unleased	00.38%	00.43
8	Katie Blankenship and Alvin Blankenship, H/W Rt. 2, Box 275 Haysi, VA 24256	Unleased	00.40%	00.45
9	Carter Deel, single P. O. Box 631 Haysi, VA 24256	Leased 1216221-000	00.34%	00.38
Unit Total			100.00%	112.69
Percentage of Unit Leased			99.22%	
Percentage of Unit Unleased			.78%	
Acreage in Unit Leased				111.81
Acreage in Unit Unleased				.88

VIRGINIA: In the Clerk's Office of the Circuit Court of Buchanan County. The foregoing instrument was this day presented in the office aforesaid and is, together with the certificate of acknowledgment annexed, admitted to record this 5th day of July, 2000 at 2:58 P. M.
Deed Book No. 509 and Page No. 631 TESTE: James M. Bevens, Jr., Clerk
Returned this date to: James M. Bevens, Jr. Deputy Clerk
TESTE: Deputy Clerk